

ROUTING AND TRANSMITTAL SLIP		Date
TO: (Name, office symbol, room number, building, Agency/Post)		12 MAR 1986
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Circulate	<input checked="" type="checkbox"/> For Your Information	See Me
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REMARKS		

Fortunately CIA is not on the list of agencies required to submit this report.

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EXECUTIVE SECRETARIAT ROUTING SLIP

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12	Compt		X		
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SUSPENSE

Date

Remarks

Executive Secretary

7 Mar 86

Date

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 28, 1986

Executive Registry
EO- 0982X



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BULLETIN NO. 86 - 8

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Productivity Improvement Program for the Federal Government

1. Purpose. This bulletin provides guidelines for the development, implementation and assessment of agency productivity improvement programs in accordance with Executive Order 12552, dated February 25, 1986. The Bulletin describes the requirements of the program; provides start-up instructions for the first year of the program; provides guidance for the development of productivity plans and the implementation and assessment of the program; and specifies reporting requirements.
2. Background. Executive Order 12552 establishes a comprehensive program for the improvement of productivity in executive departments and agencies and sets a goal of 20% productivity improvement in appropriate functions by 1992. Section 5 of the Executive order places overall direction of the program with OMB and authorizes the Director to set productivity goals, policies, principles, standards, and guidelines for the administration of the order.
3. Coverage. This Bulletin applies to the executive agencies that are listed in Attachment A. Those agencies not covered by this Bulletin are encouraged to adopt voluntarily productivity improvement programs to enhance the quality, timeliness and efficiency of their operations. Formal participation in the program for these other agencies is expected to occur later, at which time guidance will be tailored for that purpose.
4. Definitions. The following definitions are used in relation to the productivity improvement program:

Productivity means the efficiency with which resources are used to produce a government service or product at specified levels of quality and timeliness;

Productivity improvement is not just the responsibility of the head of the agency or the Assistant Secretary for Management or an office of productivity improvement, but it is the responsibility of every program manager and every employee. With this in mind, the agency should establish an appropriate structure for the program that will a) ensure agency-wide participation and interest, and b) institutionalize the productivity process, since achieving productivity improvement is a long-term process and requires a long-term orientation. The structure, however, should not involve an elaborate overhead activity. Decisions on structure are solely the agency's responsibility.

B. Preparation of Agency Productivity Improvement Plan.

The agency should use its planning process to determine the long-term goals of the productivity improvement program, to develop program objectives for improving services, and to identify annually specific functions which have high priority for improvement and which offer the best opportunities for major gains in productivity. A productivity plan should be derived from this planning process and updated annually. The productivity plan will be a significant part of the overall Management Improvement Plan which is prepared each year as part of the Management Review process (see Bulletin 85-19). Each productivity plan will:

- 1) Set forth the goals of the productivity improvement program and state the objectives to be accomplished for the reporting year.
- 2) Identify the specific functions which are those of high priority to be targeted for productivity improvement actions. Before targeting a function for improvement, the first question that should be answered is why the function is being performed or why the service being provided should continue. Only if the function is essential to the agency's mission should a decision be made to improve it.

Improvement efforts should be focused primarily, though not exclusively, on program functions. Initially, a small number of functions should be targeted for improvement (e.g., three or four). While agencies are always making management improvements that may have positive effects on productivity rates, the initial plan of the productivity program should be limited in scope and should concentrate on selected priority functions. An agency may wish to initiate productivity improvements on a pilot basis at a few sites and gradually expand the program, if

- 7) State the productivity improvement expected for each selected function. Productivity improvement should be defined in terms of an increase in the: a) ratio of outputs to inputs over time that is expected to result from the implementation of the improvement; b) quality of the product or service; and/or c) timeliness of its delivery or completion.
- 8) Describe the methods and techniques the agency will use to achieve productivity improvement in each functional area. Agencies should carefully examine whether the function is an appropriate program or service for the private sector to deliver (i.e., it is not an inherently governmental function) and could be carried out with improved efficiency, quality and timeliness. If privatization is not an appropriate strategy, other methods and techniques that could be considered include, but are not limited to: a) technological enhancements such as improved capital investment strategies, greater use of automated systems, electronic communications, and various labor-saving devices; b) structural and organizational streamlining such as consolidating functions and/or field offices, restructuring program delivery systems, cross-servicing, reducing overhead; c) methods/processes improvement such as the use of efficiency reviews to improve workflow, simplify procedures and reduce paperwork, and the use of improved quality control procedures to reduce error rates and improve the management of intra-agency insurance programs; and d) human resource improvements including improved utilization and distribution of staff resources through the use of job-related selection procedures, stronger position management, ongoing training and retraining, use of span of control analysis and staffing standards; and the creation of greater employee incentives through the use of monetary and non-monetary rewards, productivity gain-sharing, goal-setting and feedback techniques, quality circles and employee suggestions.
- 9) Indicate any resources required initially to implement the productivity improvement for each targeted function and the expected source of these resources.
- 10) Specify the expected resource savings to result from the productivity improvement.

Within the above framework, agencies should tailor their productivity improvement efforts to meet their particular needs.

The information submitted by individual agencies will be the basis for OMB's annual report on productivity achievement prepared for the President, his Domestic Policy Council and submitted to Congress in January.

7. OMB Responsibilities. In addition to developing guidelines for the development, implementation, and assessment of the government-wide productivity improvement program, OMB will develop by January 1, 1987, and update annually thereafter, a five-year productivity plan to guide the long-range planning efforts of all executive agencies. The five-year plan will be derived from agency plans and accomplishments and will analyze patterns of productivity improvement so that successful strategies can be adapted and progress in certain areas can be highlighted.

OMB will also carry out the following responsibilities:
 a) identify and propose the elimination of statutory and regulatory barriers and disincentives that inhibit productivity improvement; b) select, in consultation with the agencies, those common government functions and common agency functions that are appropriate targets for productivity improvement; and c) develop, in consultation with the agencies, organizational performance standards for common government functions.

8. Role of the President's Council on Management Improvement. The PCMI will play a major leadership role in the implementation of this government-wide effort to improve productivity in executive agencies. OMB, in partnership with the PCMI, will determine the direction of the program, will examine progress against established goals and will review the content of the program over time. Success of this program depends upon the joint efforts of the agencies, the PCMI and OMB working together to achieve common goals.

Specifically, the PCMI will:

- o provide guidance on the overall design of the program and OMB issuances to agencies;
- o sponsor and manage the pilot projects for productivity improvement (see section 11);
- o assist in selecting common government functions and common agency functions for which organizational performance standards can be developed across government;
- o develop and implement common organizational performance standards;
- o review and provide advice on the five-year productivity plan developed by OMB; and

13. Areas of Special Emphasis.

- A. Measurement Systems. Measurement is fundamental in determining whether or not the goal of productivity improvement is being achieved. Therefore, each agency should assess its needs in the area of developing accurate measurement systems, especially for those functions which will be targeted for productivity improvement over the next several years.

Measurement systems must provide 1) baseline data on current levels of accomplishment; 2) quantification of resources used as the input for production of a service or product; 3) amount of the product or service provided (output) per unit of input; and 4) other measures which capture data specified in performance standards for the product or service, such as quality and/or timeliness data. Thus, measurement systems should be able to determine changes in the ratio of outputs to inputs and in the quality and timeliness of outputs. The measurement system should not be any more sophisticated than is necessary for the function being measured. Existing measurement systems should be revised, if necessary, so that they will be of maximum utility to the agency and its managers.

The Federal Productivity Measurement System (FPMS), operated by BLS since 1973, contains instructions and guidelines for productivity measurement. This system provides a useful source of information for OMB and all agencies. While the productivity improvement program will initially focus on a few programs in selected agencies (Attachment A), the FPMS will continue to survey all agencies and programs. The BLS will continue to issue the FPMS data call, collect and summarize the data and return them to the participating agencies. The data which are submitted to OMB by December 1 should also be used for the FPMS submission for those functions for which OMB and BLS both require data. The key difference in requirements is that OMB requests data on several cost factors (salaries and expenses, automation and other costs) and BLS requests data on number of paid employee years and employee compensation. However, agencies should be able to use the same information system to report these data to OMB and BLS.

- B. Organizational Performance Standards. Once measurement systems are in place, they provide data on a work unit's current performance (e.g., a claims processing unit is completing 100 claims a week at an accuracy level of 90% and at an average processing time of 3 weeks per claim). Current performance can be considered the

Executive Agencies Included in the Productivity Improvement Program

Agriculture
Agency for International Development
Commerce
Defense
Education
Energy
Environmental Protection Agency
General Services Administration
Health and Human Services
Housing and Urban Development
Interior
Justice
Labor
National Aeronautics and Space Administration
Office of Personnel Management
State
Transportation
Treasury
United States Information Agency
Veterans Administration

ATTACHMENT B

GENERAL INSTRUCTIONS FOR PRODUCTIVITY PLAN AND ANNUAL REPORT

The Productivity Plan is a subset of the agency's **Management Improvement Plan (MIP)**. Each productivity initiative in the MIP should follow the format indicated in **OMB Bulletin 85-19**.

In addition to the data required in 85-19, the **Productivity Plan** should include the following information on each productivity initiative: (a) data for the items in Section I; and (b) a narrative response to the items in Section II.

The **Productivity Annual Report** consists of updating the productivity data (**FY 1986 ACTUAL** or **FY 1987 ACTUAL**) requested in Section I, and responding to items 9 and 10 in Section II.

OMB will create a database to track all productivity data. Reports from the database will use output and input data to calculate unit costs, changes in unit costs, and rates of productivity change.

SECTION I

Fill in the following information. The directions in APPENDIX A provide instructions on how to complete each item. Since this information will be used to create a database, it is very important that you follow the instructions carefully.

AGENCY: _____ (20 letters)

BUREAU/DIVISION: _____ (25 letters)

FUNCTION: _____ (18 letters)

FTEs AFFECTED: _____ (5 digits)

NUMBER OF SITES: _____ (4 digits)

Each of the following items is limited to 7 digits:

	FY 1985 BASELINE	FY 1986 EXPECTED	FY 1986* ACTUAL	FY 1987 EXPECTED	FY 1987* ACTUAL
Total Outputs	_____	_____	_____	_____	_____
Total Inputs	_____	_____	_____	_____	_____
1. S&E costs	_____	_____	_____	_____	_____
2. Automation costs	_____	_____	_____	_____	_____
3. Other costs	_____	_____	_____	_____	_____

*These items make up the ANNUAL REPORT. Submit them at the end of the fiscal year.

SECTION II

Respond in narrative to the following items.

1. State the goals of your productivity program as they relate to each initiative.
2. Describe the activities and tasks involved in performing the function to be improved.
3. Describe problems in the performance of the function, or list the reasons that the agency is selecting the function for improvement.
4. If a measurement system **does** currently exist, describe briefly the measures or indicators used and how the system operates. Also describe any changes that will be made to the current system.
5. If a measurement system **does not** currently exist, describe when and how a measurement system will be developed and implemented. Include dates for development and implementation as milestones in the Management Improvement Plan.
6. If organizational performance standards **do** currently exist, state the **efficiency** standard(s), **quality** standard(s) and **timeliness** standard(s) for FY 1986. Also describe any changes that will be made to the current standards.
7. If organizational performance standards **do not** currently exist, describe when and how they will be established. Include dates for development and implementation as milestones in the Management Improvement Plan.
8. Indicate **expected** changes in **quality** and **timeliness** of output, from base year FY 1985 to end of FY 1986, and from FY 1986 to end of FY 1987.

The following two items make up the ANNUAL REPORT. Submit them at the end of the fiscal year.

9. Indicate **actual** changes in **quality** and **timeliness** of output, from base year FY 1985 to end of FY 1986, and from FY 1986 to end of FY 1987.
10. If a discrepancy exists between **expected** and **actual** changes in inputs and outputs (**efficiency**), **quality**, or **timeliness**, explain the discrepancy.

DEFINITIONS

PRODUCTIVITY: The efficiency with which resources are used to produce government products or services at specified levels of quality and timeliness.

BASELINE PERFORMANCE: A measure of current performance against which future performance is compared. The Productivity Improvement Program will use FY 1985 as the baseline year.

OUTPUTS: The number of final products or services produced. Non-equivalent outputs should be weighted so that all outputs are equivalent units.

INPUTS: Costs of resources used to produce outputs. This should include all divisions or offices which contribute to producing the outputs. Costs include: 1) salaries and expenses (S & E) of all employees who directly or indirectly produce the outputs, including management, professional, administrative, technical and clerical workers of relevant divisions; 2) automation costs not included in S & E (such as hardware, software, and telecommunication costs); and 3) other costs which are not included in either 1 or 2.

EXPECTED OUTPUTS AND INPUTS: The changes to be achieved in outputs and inputs as a result of implementing productivity improvement strategies. Data should be entered into the system to indicate expected changes from base year FY 1985 to the end of FY 1986, and from FY 1986 to the end of FY 1987.

ACTUAL OUTPUTS AND INPUTS: Actual cost inputs and actual number of outputs achieved as a result of implementing productivity improvement strategies. Data should be entered into the system at the end of the fiscal year, to indicate actual changes from base year FY 1985 to the end of FY 1986, and from FY 1986 to the end of FY 1987.

FTE: Full-time equivalent.

ORGANIZATIONAL PERFORMANCE STANDARDS: These standards state what ought to be the level of performance achieved by the organizational unit(s) performing the function. Standards should address the three elements of performance: efficiency, quality and timeliness.

APPENDIX A

**PRODUCTIVITY PLAN AND ANNUAL REPORT
DATA DICTIONARY**

FIELD NAME: AGENCY

FIELD WIDTH: 20 letters

INSTRUCTIONS: Enter the name of the agency.

FIELD NAME: BUREAU/DIVISION

FIELD WIDTH: 25 letters

INSTRUCTIONS: Enter the name of the organization under study.
Abbreviate if necessary.

FIELD NAME: FUNCTION

FIELD WIDTH: 18 letters

INSTRUCTIONS: State the function to be improved. Be as concise
as possible. Abbreviate if necessary.

FIELD NAME: FTES AFFECTED

FIELD WIDTH: 5 digits

INSTRUCTIONS: Enter the total number of FTEs involved in the function to be improved.

FIELD NAME: NUMBER OF SITES

FIELD WIDTH: 4 digits

INSTRUCTIONS: Enter the number of sites under study.

FIELD NAME: TOTAL OUTPUTS

FIELD WIDTH: 7 digits

INSTRUCTIONS: Enter the total outputs for the function to be improved.

DEFINITION: Outputs are the number of final products or services produced. Non-equivalent outputs should be weighted so that all outputs are equivalent units.

FIELD NAME: TOTAL INPUTS

FIELD WIDTH: 7 digits

INSTRUCTIONS: Enter the total inputs for all organizational units involved in producing the outputs.

DEFINITION: Inputs are the costs of resources used. This should include all divisions or offices which contribute to producing the outputs.

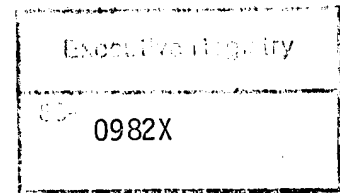
For major capital investments that occur in the reporting year, proportion the cost according to your own agency's amortization formula or policy.

Costs should include:

1. Salary and expense (S & E) costs of all employees who directly and indirectly produce the output. This should include all management, administrative, technical support and direct program staff. ENTER THIS FIGURE FOR LINE 1 (S & E COSTS).
2. Automation costs not included in S & E (e.g. all costs associated with automating operations such as hardware, software, and telecommunications costs). ENTER THIS FIGURE FOR LINE 2 (AUTOMATION COSTS).
3. Other costs which are not included in either 1 or 2 (e.g. special contracts). ENTER THIS FIGURE FOR LINE 3 (OTHER COSTS).



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503



February 28, 1986

BULLETIN NO. 86 - 8

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General Services Administration
Health and Human Services
Housing and Urban Development
Interior
Justice
Labor
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State
Transportation
Treasury
United States Information Agency
Veterans Administration

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SECTION I

Fill in the following information. The directions in APPENDIX A provide instructions on how to complete each item. Since this information will be used to create a database, it is very important that you follow the instructions carefully.

AGENCY: _____ (20 letters)

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2. Automation costs	_____	_____	_____	_____	_____
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SECTION II

Respond in narrative to the following items.

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9. Indicate actual changes in quality and timeliness of output, from base year FY 1985 to end of FY 1986, and from FY 1986 to end of FY 1987.
10. If a discrepancy exists between expected and actual changes in inputs and outputs (efficiency), quality, or timeliness, explain the discrepancy.

DEFINITIONS

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EXPECTED OUTPUTS AND INPUTS: The changes to be achieved in outputs and inputs as a result of implementing productivity improvement strategies. Data should be entered into the system to indicate expected changes from base year FY 1985 to the end of FY 1986, and from FY 1986 to the end of FY 1987.

ACTUAL OUTPUTS AND INPUTS: Actual cost inputs and actual number of outputs achieved as a result of implementing productivity improvement strategies. Data should be entered into the system at the end of the fiscal year, to indicate actual changes from base year FY 1985 to the end of FY 1986, and from FY 1986 to the end of FY 1987.

FTE: Full-time equivalent.

ORGANIZATIONAL PERFORMANCE STANDARDS: These standards state what ought to be the level of performance achieved by the organizational unit(s) performing the function. Standards should address the three elements of performance: efficiency, quality and timeliness.

APPENDIX A

**PRODUCTIVITY PLAN AND ANNUAL REPORT
DATA DICTIONARY**

FIELD NAME: AGENCY

FIELD WIDTH: 20 letters

INSTRUCTIONS: Enter the name of the agency.

FIELD NAME: BUREAU/DIVISION

FIELD WIDTH: 25 letters

INSTRUCTIONS: Enter the name of the organization under study.
Abbreviate if necessary.

FIELD NAME: FUNCTION

FIELD WIDTH: 18 letters

INSTRUCTIONS: State the function to be improved. Be as concise
as possible. Abbreviate if necessary.

FIELD NAME: FTES AFFECTED

FIELD WIDTH: 5 digits

INSTRUCTIONS: Enter the total number of FTEs involved in the function to be improved.

FIELD NAME: NUMBER OF SITES

FIELD WIDTH: 4 digits

INSTRUCTIONS: Enter the number of sites under study.

FIELD NAME: TOTAL OUTPUTS

FIELD WIDTH: 7 digits

INSTRUCTIONS: Enter the total outputs for the function to be improved.

DEFINITION: Outputs are the number of final products or services produced. Non-equivalent outputs should be weighted so that all outputs are equivalent units.

FIELD NAME: TOTAL INPUTS

FIELD WIDTH: 7 digits

INSTRUCTIONS: Enter the total inputs for all organizational units involved in producing the outputs.

DEFINITION: Inputs are the costs of resources used. This should include all divisions or offices which contribute to producing the outputs.

For major capital investments that occur in the reporting year, proportion the cost according to your own agency's amortization formula or policy.

Costs should include:

1. Salary and expense (S & E) costs of all employees who directly and indirectly produce the output. This should include all management, administrative, technical support and direct program staff. ENTER THIS FIGURE FOR LINE 1 (S & E COSTS).
2. Automation costs not included in S & E (e.g. all costs associated with automating operations such as hardware, software, and telecommunications costs). ENTER THIS FIGURE FOR LINE 2 (AUTOMATION COSTS).
3. Other costs which are not included in either 1 or 2 (e.g. special contracts). ENTER THIS FIGURE FOR LINE 3 (OTHER COSTS).